



Charging Arrangements for New Connections Services 2020/21 **Board Assurance and Compliance Statements**

Publication Date: 31 January 2020



1. Introduction

The Board and Audit Committee of Affinity Water Limited (the “Company”) have overseen the preparation of our tariffs and charges for 2020/21. Due to the timing of the requirements for publication of our Charging Arrangements for New Connections Services 2020/21 (“Charging Arrangements”) the Board established a board committee, which included executive and non-executive directors, to act on behalf of the full Board to review the work undertaken.


The Board committee on behalf of the Board has:

- reviewed the requirements published in “Information Notice 19/05”, setting out Ofwat’s expectations for new connection services charging arrangements 2020/21;
- considered the requirements of Ofwat’s Charging Rules for New Connection Services (English Undertakers) (July 2019) (“Ofwat’s Charging Rules”);
- considered the actions undertaken by management to prepare our Charging Arrangements to meet these requirements;
- approved the Board Assurance Statement set out in Section 2 below; and
- approved the Statement of Compliance with Ofwat’s Charging Rules set out in the Appendix to this document.

2. Board Assurance Statement

The Board of Affinity Water Limited having made due enquiry of management confirms, to the best of its knowledge, that:

- (a) the Company complies with its obligations relating to the Charging Rules;
- (b) the Company has appropriate systems and processes in place to make sure that the information contained in its Charging Arrangements, and the additional information covered by the annex to the Charging Rules are accurate; and
- (c) the present balance of charges between developers and other customers is broadly being maintained.



Patrick O’D Bourke
Independent Non-Executive Director
On behalf of the Board

30 January 2020

Appendix
Affinity Water Limited
Statement of Compliance with Charging Rules for New Connections Services

Rule No.	Charging Rule	Our Compliance
Rules 1 to 6	Definitions and Interpretation	Not applicable
Consultation		
Rule 7	<p>Undertakers must determine what types of charges covered by these rules may or may not be imposed, and the amount of such charges, in accordance with the principle that changes to charges covered by these rules should only be made after proportionate, timely and effective consultation with groups of persons likely to be significantly affected by the proposed Charging Arrangements (or their representatives) and any other persons the undertakers consider it appropriate to consult.</p>	<p>We prepared a new version of our Charging Arrangements for the 20/21 year and then ran a detailed consultation process. We invited comments on the principles of our Charging Arrangements from 126 developers, all UK NAVs and 15 self-lay providers (and their representatives). In addition, we held three open consultation meetings, one of which was attended by a representative of Ofwat. We have taken account of the comments we received from these parties and at the meetings, where appropriate, in our published Charging Arrangements for 2020/21.</p> <p>Service connection costs In 2020/21 our charges for service connections are, in broad terms, increasing by 5%. In our consultation we had suggested a 10% increase which reflected the costs of the new contractor we had appointed to do this work for customers. The previous contractor has ceased work for us and we appointed an interim contractor for the period up to October 2020. Following consultation responses, we have decided to smooth the increase in order to minimise disruption to customers, by limiting it to 5%. We took the decision, with due regard to the principles set out in Rule 18 of fairness and affordability, stability and predictability, and transparency and customer-focused service. We will review this aspect of charging again next year, when the new contractor is in place.</p> <p>Mains costs For mains laying our charges are remaining broadly the same as in the previous year save as regards the change to infrastructure charges from income offsets which features in Ofwat's Charging Rules.</p>
Publication and Transparency		

Rule No.	Charging Rule	Our Compliance
Rule 8	Relevant undertakers must publish charges developed under these rules in a single document (the Charging Arrangements). The Charging Arrangements must be published on the undertaker's website and in any other manner the undertaker considers appropriate for the purpose of bringing the Charging Arrangements to the attention of persons likely to be affected by it.	All charges developed under the rules are covered by our Charging Arrangements which is a single document. For convenience, it also includes information about Infrastructure Charges levied under the Affinity Water Charges Scheme. Our Charging Arrangements are published on the developer services section of our website.
Rule 9	The maximum amount of any charge that may be imposed by an undertaker under the provisions of the Water Industry Act 1991 covered by these rules shall be the amount set out in, or calculated in accordance with, the Charging Arrangements published by that undertaker. For the avoidance of doubt, the charges and charging methodologies set out in the Charging Arrangements must therefore include any relevant miscellaneous and ancillary costs such as assessment, inspection, design, legal and supervision charges that the undertaker is entitled to recover, unless there is a different legal basis for the recovery of such costs.	Our Charging Arrangements set out all charges imposed by us under the provisions of the Water Industry Act 1991 to which the Charging Rules apply. The charges and methodologies include all relevant miscellaneous and ancillary costs recoverable under those provisions.
Rule 10	The Charging Arrangements must be published no later than two months before the period in relation to which they have effect. Charging Arrangements must be published at least once in every year from 2018 onwards.	Our Charging Arrangements for 2020/21 are published on 31 st January 2020 alongside this document.
Rule 11	The Charging Arrangements must explain how each charge has been calculated or derived. Where an undertaker determines the applicable charges other than by Fixed Charges, the methodology for the calculation of such charges must be explained clearly in the Charging Arrangements.	Our Charging Arrangements confirm that our charges have been calculated to reflect the costs we have historically incurred in respect of each activity and our forecast estimate of the volume of activities expected to be undertaken and costs incurred in 2020/21. The charging methodology has been the subject of internal and external assurance by our regular external technical assurance provider.
Rule 12	The Charging Arrangements are to be written and presented in a clear and accessible manner, which takes due account of the varying levels of expertise of all Developers or other customers who may rely on the Charging Arrangements. Undertakers should consider publishing worked examples where this could aid customers' understanding.	We consider our Charging Arrangements to be written in a clear and accessible manner. We have encouraged feedback from bodies like CCWater and received positive feedback about the clarity of our Charging Arrangements in the previous year. Accordingly, we have kept the same format in the new Charging Arrangements. They include worked examples of charges to help understanding.
Rule 13	Charges must be published with such additional information or explanation as is necessary to make clear what services are covered by each charge.	For each charge item, our Charging Arrangements explain what services are covered by the charge.
Rule 14	Undertakers must publish the charges covered by these rules in such a way that a Developer or other customer can confidently work out a reasonable estimate of the charges payable if they know the relevant parameters of a Development.	We have worked hard in recent years to improve the usability of our charges document and we believe that we have significantly improved it. We are receiving good feedback on the improvements that we have made. Developers and other customers have told us they are able to work out a reasonable estimate of charges payable based on the known parameters for their Development.
Rule 15	The Charging Arrangements must identify which charges are associated with Contestable Work and Non-contestable Work.	The charging tables in our Charging Arrangements clearly show which charges relate to Contestable Work and those that relate to Non-contestable Work. Following feedback from our customers and Regulators in recent years, we have worked hard to make sure that the Contestable areas of work are very clearly highlighted in our documents and we have received positive verbal feedback on this point from customers.

Rule No.	Charging Rule	Our Compliance
Rule 16	Undertakers must provide a reasonable choice of times and methods of payment of the charges and set these out in the Charging Arrangements.	Section 13 of our Charging Arrangements sets out the times and methods of payment for each of our charges. We included the arrangements for transitional charges between 19/20 and 20/21 in our consultation. We have reviewed our approach against other undertakers in the region and consider our approach in this area to be reasonable.
Small companies		
Rule 17	Rule not applicable to Affinity Water Limited	Not applicable.
General charging principles		
Rule 18	<p>Relevant undertakers must determine what types of charges may or may not be imposed and the amount of any charges that may be imposed in accordance with the principle that charges covered by these rules should reflect:</p> <ul style="list-style-type: none"> (a) fairness and affordability; (b) environmental protection; (c) stability and predictability; and (d) transparency and customer-focused service. 	<p>The charges set out in our Charging Arrangements have been developed to ensure that they are transparent and easy to understand. We have sought to achieve fairness and affordability by setting different charges for different types of work to reflect the different costs of that work, while balancing against the need for a transparent and simple charging structure and maintaining stability and predictability year on year. As noted in the compliance commentary on Rule 7 above, we have been guided by these charging principles in addition to customer feedback when setting our connection charges.</p> <p>Our infrastructure charge includes a discount for developers that can demonstrate that they have complied with the building regulations for water stressed areas, that seek to achieve a PCC of 110 or less.</p>
Principles for Determining the Nature and Extent of All Charges Covered by these Rules		
Rule 19	<p>In setting charges in accordance with the present rules, undertakers should take reasonable steps to ensure that the balance between contributions to costs by Developers and other customers prior to 1 April 2018, is broadly maintained. Section 3 of Annex A to the Government's Charging Guidance to Ofwat published in January 2016 lists the charges under which Developers contribute costs relevant to this rule. For the avoidance of doubt, Income Offset also needs to be included. An undertaker may only depart from this general requirement where (and to the extent that) this is rendered necessary by circumstances providing clear objective justification for doing so. Any such justification must be clearly identified in any Charging Arrangements prepared pursuant to these rules.</p>	<p>For 2020/21, we have balanced the need for cost reflectivity with the need for stability and predictability. We have carried out an assessment of the balance of charges between Developers and other customers to ensure that the balance is broadly maintained in 2019/20.</p> <p>Three methods were used to carry out the assessment:</p> <ul style="list-style-type: none"> • The average developer contribution per new connection was compared to a typical bill; • The annual developer contribution was compared to capital expenditure relating to new connections; and • Review of a range of developments to understand the proportion that would be expected to experience increases or decreases in the developer contribution towards the cost of a new water main, compared to under the previous charging arrangements. <p>We consider that the broad balance of charges is unchanged from 2018/19.</p>

Rule No.	Charging Rule	Our Compliance
		<p>As we reported previously, in 2018/19, we made changes to our charges to address a divergence over a number of years between actual overhead costs incurred in providing developer services activities and those recovered from developers. The differential had, in effect, been met by customers through water supply charges. We explained that in order to be broadly cost reflective and promote effective competition for contestable work, we had set charges to increase the amount of overhead costs recovered from developers, resulting in a change in the then balance of charges between customers and developers. This in our view met the test under Rule 19 for an objective justification to amend the charges calculations as to the balance between contributions to costs by Developers and other customers prior to 1 April 2018.</p> <p>In terms of income offsets, the offset has been set to reflect the balance of charges in 2017/18. Specifically, we have calculated the average payment (income offsets plus asset payments) made in 2017/18. We have increased that payment by inflation and will apply that as the income offset to all connections in 2020/21.</p>
Rule 20	Consistent principles and approaches must be applied to the calculation of charges and when they are payable for different classes of customer. For the avoidance of doubt, this includes the calculation of charges and when they are payable for Non-contestable Work, whether or not a person other than the undertaker is carrying out Contestable Work.	Our Charging Arrangements take a consistent approach to the calculation of charges as between developers, self-lay providers and other customers of developer services activities.
Rule 21	Charges and arrangements for when they are each payable must be set in accordance with the principle that they should promote effective competition for Contestable Work.	<p>Charges for Contestable Work have been set on a cost reflective basis so that cost of undertaking the work or providing the service is covered by the charges (including contractor costs and the costs of operating our developer services function).</p> <p>The provision of an Income Offset against Infrastructure Charges will help to promote effective competition in the self-lay market.</p> <p>We have also removed the design review charges in response to feedback that this was restricting the ability of downstream operators to compete with our internal design team. We believe that this will promote competition in design and help to support effective markets.</p> <p>We have considered how our payment terms for Contestable Work promote effective competition and concluded we offer a reasonable choice of payment terms to achieve this aim.</p>
Rule 22	For the avoidance of doubt, in charges covered by these rules undertakers may recover reasonable administrative expenses and other overheads incurred in discharging any rights or obligations under the relevant provisions of the Water Industry Act 1991.	Our charges include the recovery of administrative expenses and other overheads incurred in discharging any rights or obligations under the relevant provisions of the Water Industry Act 1991.
Charges for the Requisition of Water Mains and Public Sewers		

Rule No.	Charging Rule	Our Compliance
Rule 23	Each undertaker shall set out in its Charging Arrangements charges that will be imposed by that undertaker for work carried out by it in accordance with the duties imposed by section 41(1) (provision of requisitioned Water Main) and section 98(1) (provision of requisitioned public sewer) of the Water Industry Act 1991 (together, " Requisition Charges ").	Section 6 of our Charging Arrangements sets out the charges we impose for work carried out in respect of water mains requisitioned under Section 41 of the Water Industry Act 1991.
Rule 24	These charges are concerned with the cost to the undertaker of providing Site Specific infrastructure necessary for the provision of a Water Main and/or Public Sewer.	Our Charging Arrangements at Section 6 acknowledge this in respect of the provision of a Water Main.
Rule 25	In relation to Requisition Charges, an undertaker: a) must provide for the option of upfront Fixed Charges in respect of any work carried out by the undertaker; and b) may also provide for other alternative methods for calculating charges but, where it does so, each alternative method must be explained clearly in the Charging Arrangements.	Section 6 of our Charging Arrangements provides for upfront Fixed Charges to be payable in respect of Requisition Charges, subject to the exceptions permitted by Rules 47 and 48 of the Charging Rules.
Rule 26	Requisition Charges must relate to the costs of providing the requisitioned Water Main and/or Public Sewer. Such charges may not include any amount for Network Reinforcement costs.	Our Charging Arrangements at Section 6 confirm that Requisition Charges do not include any amount for Network Reinforcement costs.
Rule 27	Any Requisition Charges imposed by an undertaker: a) must relate only to Site Specific Work carried out and costs incurred by the undertaker in order to meet its duties under sections 41(1) or 98(1) of the Water Industry Act 1991; and b) must not relate to work needed or desired to modify or enhance existing network infrastructure in order to address pre-existing deficiencies or to enhance network flexibility, in capacity or capability, unrelated to requirements associated with the requisition.	Our Charging Arrangements at Section 6 confirm that Requisition Charges relate solely to Site Specific Work undertaken to meet our duties under Section 41(1) of the Water Industry Act 1991 and do not relate to work to modify or enhance the existing network to address pre-existing deficiencies or to enhance network flexibility, capacity of capability unrelated to the requisition.
Rule 28	Where an undertaker provides a Water Main or Public Sewer pursuant to a requisition and, in so doing, decides to increase the capacity of pipes or other infrastructure beyond that which is needed to meet the undertaker's duty under section 41(1) or section 98(1) of the Water Industry Act 1991, the costs of this work shall, if this increases the costs of the work, be apportioned so that the person making the requisition only pays costs which are in proportion to the particular capacity required by his or her requisition.	Section 6 of our Charging Arrangements reflects this requirement.
Rule 29	Undertakers shall not provide for Income Offsets in setting Requisition Charges.	Section 6 of our Charging Arrangements does not make provision for an Income Offset and our internal processes have been updated ready to address this change. This change has been brought in by Ofwat as a change to its Charging Rules and was addresses in our consultation, mentioned in the commentary on Rule 7.
Rule 30	a) not used.	Not used.

Rule No.	Charging Rule	Our Compliance
Charges for the Provision of lateral Drains, the Connection of Water Mains and Communications with Public Sewers and Ancillary Works		
Rule 31	Each undertaker shall set out in its Charging Arrangements charges that will be imposed by that undertaker for work carried out by it in accordance with the duties (or rights) created by the following provisions of the Water Industry Act 1991: section 45(1) (connection with Water Main); section 46(1) (ancillary works for purposes of making a domestic connection); section 98(1A) (provision of lateral drains); section 101B (construction of lateral drains following construction of a public sewer) or section 107(1) (right of undertakers to make communication with Public Sewer) (together, “ Connection Charges ”).	Section 7 of our Charging Arrangements sets out our charges for work carried out in accordance with our duties under Section 45 and Section 46(1) of the Water Industry Act 1991 (Connection Charges).
Rule 32	In relation to Connection Charges an undertaker: a) must provide for the option of upfront Fixed Charges in respect of any work carried out by the undertaker; and b) may also provide for other alternative methods for calculating charges but, where it does so, each alternative method must be explained clearly in the Charging Arrangements.	Our Charging Arrangements provide for upfront Fixed Charges to be payable in respect of work carried out in accordance with our duties under Section 45 and Section 46(1) of the Water Industry Act 1991.
Rule 33	Any Connection Charges imposed by an undertaker must relate only to Site Specific Work carried out and costs incurred by the undertaker pursuant to sections 45(1), 46(1), 98(1A), 101B or 107(1) of the Water Industry Act 1991.	The Connection Charges set out in Section 7 of our Charging Arrangements are imposed solely in respect of our costs of carrying out Site Specific Work under Section 45(1) and Section 46(1) of the Water Industry Act 1991.
Rule 34	Undertakers shall not provide for Income Offsets in setting Connection Charges.	Our Charging Arrangements do not provide for Income Offsets against Connection Charges.
Charges and Asset Payments in respect of an Agreement under Section 51A or 104 of the Water Industry Act 1991		
Rule 35	Each undertaker shall set out in the applicable Charging Arrangements the charges to be imposed in respect of an agreement under section 51A or section 104 of the Water Industry Act 1991.	Section 8 of our Charging Arrangements sets out the charges we impose in respect of an agreement under section 51A of the Water Industry Act 1991.
Rule 36	These charges are concerned with the cost of Site-Specific Work necessary as part of the adoption or connection of a Water Main, Communication Pipe, Public Sewer and/or Lateral Drain. Such charges may not include any amount for Network Reinforcement costs.	Section 8 of our Charging Arrangements confirms that our charges do not include any element of network reinforcement costs.
Rule 37	Any charges imposed by an undertaker in respect of an agreement under section 51A or section 104 of the Water Industry Act 1991: a) must relate only to Site Specific Work carried out and costs incurred by the undertaker in order to meet its duties under such an agreement; and b) must not relate to work needed or desired to modify or enhance existing network infrastructure in order to address pre-existing deficiencies, in capacity or capability, unrelated to requirements associated with the agreement.	Our Charging Arrangements at Section 8 confirm that these charges relate solely to Site-Specific Work undertaken and costs incurred to meet our duties under a Section 51A agreement and do not relate to work to modify or enhance the existing network to address pre-existing deficiencies or to enhance network flexibility, capacity or capability unrelated to the requisition.

Rule No.	Charging Rule	Our Compliance
Rule 38	Insofar as section 51A agreements are concerned, water undertakers shall not provide for Asset Payments for the adoption of a Water Main.	Section 8 of our Charging Arrangements does not provide for Asset Payments to be made in respect of Water Mains.
Rule 39	Rule not applicable to Affinity Water Limited.	Not applicable.
Rule 40	Not used.	Not used.
Rule 41	Undertakers shall not provide for Asset Payments for the adoption of a Communication Pipe or Lateral Drain.	Section 9 of our Charging Arrangements set out our charges for the adoption of a Communication Pipe. We do not provide for Asset Payments to be made in respect of the adoption of Communication Pipes.
Charges for Diversions of Pipes and other Apparatus under Section 185 of the Water Industry Act 1991		
Rule 42	<p>Each undertaker must set out in its Charging Arrangements its method(s) for calculating the charges imposed by that undertaker pursuant to section 185(5) of the Water Industry Act 1991 ("Diversions Charges"). In relation to Diversions Charges an undertaker:</p> <p>a) may provide for the option of upfront Fixed Charges in respect of any work carried out by the undertaker; and</p> <p>b) may also provide for other alternative methods of calculating charges but, where it does so, each alternative method must be explained clearly in the Charging Arrangements.</p>	<p>Section 10 of our Charging Arrangements sets out our methodology for calculating charges imposed pursuant to Section 185(2) of the Water Industry Act 1991 in respect of the diversion of pipes and other apparatus.</p> <p>Our Diversions Charges comprise a combination of Fixed Charges for elements of work, where there is sufficient certainty of the scope of that work, and charges based on the actual costs we incur in respect of other work elements.</p>
Rule 43	Charges levied pursuant to section 185(5) must be calculated by reference to the principle that the undertaker is only entitled to recover costs reasonably incurred as a result of complying with the duty imposed by section 185(1) of the Water Industry Act 1991.	Section 10 of our Charging Arrangements confirms this is the approach we take to recovery of such costs.
Security/Deposit Arrangements		
Rule 44	<p>An undertaker is allowed to require security prior to commencing work, whether in the form of a sum deposited with the undertaker or otherwise:</p> <p>a) under section 42(1)(b), 47(2)(a), 99(1)(b), 101B(3A), 107(3)(b)(ii) or 185(4); or</p> <p>b) for the purposes of any charges imposed under an agreement under section 51A or section 104 of the Water Industry Act 1991.</p>	<p>Our experience is that developers generally prefer to deposit a sum of money by way of security rather than alternative forms of security. We consider other forms of security that provide equivalent protection.</p> <p>We do not require security for any charges imposed under a Section 51A agreement to adopt water mains and/or service pipes.</p>
Rule 45	The type and amount of security should not be unduly onerous, taking into account the risk to be borne by the undertaker in carrying out the work in question. Where undertakers require security, the type and amount of security and the payment of interest on the security should reflect the general charging principles set out in paragraph 18.	Section 13 of our Charging Arrangements sets out our requirements for the provision of security. As well as security by way of a deposited sum, we are willing to consider any other form of security offered providing an equivalent level of protection. We will pay interest on any sums deposited with us by way of security.

Rule No.	Charging Rule	Our Compliance
Rule 46	The undertaker must clearly set out requirements for security in relation to any charges to be applied in its Charging Arrangements.	Section 13 of our Charging Arrangements sets out our requirements for security in relation to charges imposed.
Exceptions from requirements to provide upfront Fixed Charges		
Rule 47	Undertakers are not required to provide for the option of upfront Fixed Charges in accordance with paragraphs 25 (Requisition Charges) of these rules, or to comply with paragraph 14, where, and to the extent that, it would be unreasonable to expect an undertaker to do so (having had regard to the practicality of setting a cost-reflective upfront Fixed Charge and the benefit to customers of producing such a charge).	Section 6 of our Charging Arrangements reflects this.
Rule 48	Where paragraph 47 applies, an undertaker must set out, and explain clearly, in its Charging Arrangements the alternative method or methods that will apply for calculating charges.	Section 6 of our Charging Arrangements sets out the method we will apply to calculate charges in these circumstances; in particular by using the rates published in our Charging Arrangements for main laying where they are appropriate to the circumstances of the specific pipe diversion.
Annex: Information requirements		
Assurance statements		
A1	<p>Each undertaker should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of the Charging Arrangements:</p> <ol style="list-style-type: none"> i. confirming that the company complies with its obligations relating to these Charging Rules; ii. confirming that the company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and the additional information covered by this annex is accurate; iii. explaining how the present balance of charges between Developers and other customers is broadly maintained. 	<p>We have provided an assurance statement in respect of our Charging Arrangements in Section 2 of this document. We have put in place an assurance framework to cover the Charging Arrangements. This includes both internal and external assurance. External assurance has been given on the suitability and compliance of our systems and processes with our Charging Arrangements and the compliance with our legal and regulatory obligations. As a result of this work, The Board considers that the company has appropriate systems and processes in place to make sure that the information contained in the Charging Arrangements is accurate.</p> <p>We have carried out an assessment of the balance of charges between Developers and other customers to ensure that the balance is broadly maintained in 2020/21. The Board has been presented with evidence to demonstrate the assessment that the balance has been broadly maintained.</p> <p>Three methods were used to carry out the assessment:</p> <ul style="list-style-type: none"> • The average developer contribution per new connection was compared to a typical bill; • The annual developer contribution was compared to capital expenditure relating to new connections; and • Review of a range of developments to understand the proportion that would be expected to experience increases or decreases in the developer contribution towards the cost of a new water main, compared to under the previous charging arrangements.

